File

STANDARD INTERNATIONAL CORPORATION
ANNUAL REPORT 1966

Fabian Bachrach

BOARD OF DIRECTORS (Seated, left to right): Warren S. Cooper*, John Bolten, Jr., *Chairman* John Bolten, Sr.*, *President* Daniel E. Hogan, Jr.*, Samuel S. Dennis 3d*, William L. Brown*. (Standing, left to right): Gale M. Deam, Charles J. McCarthy, Kurt H. Grunebaum, James N. Johnson, Hans S. Vohs.

*Member of Executive Committee

OFFICERS

John Bolten, Sr., *Chairman of the Board of Directors*
Daniel E. Hogan, Jr., *President*
John Bolten, Jr., *Vice President*
Warren S. Cooper, *Vice President and Treasurer*
Gale M. Deam, *Vice President*
Samuel S. Dennis 3d, *Vice President*
James N. Johnson, *Vice President*
Charles J. McCarthy, *Vice President*
Sol Sackel, *Vice President*
Hans S. Vohs, *Vice President*
George H. Crawford, *Secretary*

CORPORATE STAFF

President — Daniel E. Hogan, Jr.
Treasurer — Warren S. Cooper
Assistant Treasurer — Donald N. Junior
Marketing and Public Relations — Sol Sackel
Corporate Counsel — George H. Crawford
Personnel and Industrial Relations — George F. Henderson
Data Processing — Edmund E. Ackerson

EXECUTIVE OFFICES Andover, Mass. 01810

GENERAL COUNSEL Hale & Dorr, 60 State Street, Boston, Mass.

TRANSFER AGENTS

Old Colony Trust Company, 45 Milk Street, Boston, Mass.
First National City Bank, 55 Wall Street, New York, New York

REGISTRARS

The First National Bank of Boston, 67 Milk Street, Boston, Mass.
Irving Trust Company, 1 Wall Street, New York, New York

AUDITORS Haskins & Sells, 80 Federal Street, Boston, Mass.

COMMON STOCK Listed and traded on the American Stock Exchange

NOTICE OF ANNUAL MEETING The Annual Meeting of the Stockholders will be held at 10:00 A.M. on Thursday, October 27, 1966, at the Statler Hilton Hotel, Park Square at Arlington Street, Boston, Mass.

ANNUAL REPORT 1966

For the Fiscal Year Ended June 30, 1966

STANDARD INTERNATIONAL CORPORATION

CONTENTS

THREE-YEAR HIGHLIGHTS

	Fiscal Years Ended June 30		
OPERATIONS	**1966**	**1965***	**1964***
Consolidated Net Sales	**$52,089,631**	$51,815,967	$52,529,291
Sales of Unconsolidated South American Subsidiaries (based on approximate average rate of foreign currency during year)	**23,924,520**	24,489,431	21,715,840
Income Before Taxes on Income	**4,321,380**	3,596,526	2,602,518
Provision for Taxes on Income	**1,550,000**	1,078,043	1,382,207
Net Income (excludes equity in undistributed foreign earnings and special items)	**2,771,380**	2,518,483	1,220,311
Depreciation and Amortization	**1,540,829**	1,374,551	1,344,532
Cash Flow	**4,347,803**	3,925,493	2,434,931
PER SHARE OF COMMON STOCK			
Earnings	**1.58**	1.44	.82
Cash Flow	**2.51**	2.30	1.64
Working Capital	**5.97**	4.79	2.96
Book Value	**9.42**	8.04	6.40
Cash Dividends	**.23**	.15	—
Stock Dividend	**4%**	—	—
Number of Shares Outstanding	**1,735,492**	1,706,681	1,481,797
FINANCIAL POSITION			
Working Capital	**10,359,095**	8,183,495	4,382,345
Current Ratio	**2.24 to 1**	1.98 to 1	1.39 to 1
Total Assets	**42,566,261**	39,080,813	36,045,954
Long-Term Debt to Financial Institutions	**11,116,932**	9,544,555	6,741,214
Total Long-Term Debt	**18,130,375**	17,435,978	14,468,196
Stockholders' Equity	**17,246,502**	14,618,479	11,221,083

*Includes all necessary adjustments for 4% Stock Dividend paid in January, 1966 and "Pooling of Interests" acquisitions.

President Daniel E. Hogan, Jr. and Chairman John Bolten

TO OUR STOCKHOLDERS:

Fiscal 1966 was the best year in the history of Standard International. Sales, income and earnings per share all rose to record levels. By year-end, stockholders' equity had reached a new peak and the financial position of the Company was the strongest in its history. In every respect, it was a year of achievement in which the promises and hopes of the past were fulfilled, and the framework for continued growth was substantially enhanced. We are confident that Standard International is now in a position to exploit its present opportunities and to successfully accept promising new challenges at an accelerated pace.

Sales, Earnings Set Record Highs

For the fiscal year ending June 30, 1966, pre-tax profits rose to $4,321,000, an increase of 20% above the prior year's results. Sales amounted to $52,090,000, up slightly from fiscal 1965's $51,816,000. Net profits after taxes amounted to $2,771,000, or $1.58 per common share, up 10% from last year's figure of $2,518,000, or $1.44 per share. This represents a 16.7% return on the equity attributable to the common stockholders. Sales and earnings figures for both years are adjusted to reflect the acquisition of a men's clothing manufacturing operation — on June 30, 1966 — on a pooling of interests basis. Per share earnings for 1965 reflect the 4% stock dividend paid in January, 1966.

These earnings, together with depreciation and amortization of $1,541,000, created a Cash Flow of $4,348,000, which compares with a Cash Flow in 1965 of $3,925,000. Reported sales do not include the record case sales attained during the year by our South American Coca-Cola franchises, and the income statement includes only dividends actually received from these operations. Earnings of our subsidiary in Puerto Rico and our dividends from South America are not subject to U.S. income taxes.

Financial Position

The Working Capital of the Company at year-end rose 26% to $10,359,000, an increase of $2,176,000 over the previous year. The total common stock equity increased to $16,350,000 from $13,721,000 at the end of the prior year. Equity per common share amounted to $9.42, up 17.2% from $8.04.

Dividend Payments Increased

Cash dividends declared on the common stock amounted to 24¢ per share for the year, compared with 16¢ paid the prior year. In addition, the Directors voted a 4% stock dividend which was paid to common stockholders in January, 1966. The Company continues to maintain a conservative dividend policy in view of its requirements for further plant expansion, for its acquisition program, and for debt repayment during the next few years.

Listing on American Stock Exchange

On July 11, 1966, Standard International reached a major milestone when trading in the Company's common stock began on the American Stock Exchange under the symbol "S T L." An "AMEX" listing should increase the marketability and broaden the ownership of our stock, while enabling our stockholders to obtain immediate price information from local brokers and newspapers across the country. In addition, the possibility of offering a "listed" security may enhance our ability to make acquisitions.

Acquisition Program

In the important acquisition phase of our business, we have studied and considered many companies during the past year. While it is always difficult to predict which discussions and negotiations will ultimately be consummated, our "batting average" has been fairly good once serious negotiations have been entered into.

As previously announced, we have reached agreement in principle for the merger of the Welded Tube Company of America with Standard International. Negotiations are proceeding satisfactorily and stockholders will be kept informed of the progress of this potential acquisition.

On September 2, an agreement was signed for the cash purchase of the stock of Roll, Die and Mold Decorators, Inc. of Youngstown, Ohio. Using a patented process developed by its founder, the company has experienced profitable growth since its inception a number of years ago. The firm engraves patterns on the inside of molds and dies to give a decorative finish to injection, compression and blow molded products. Patents on the company's process have been issued or are now pending in over 25 countries. Royalty income from American and foreign licensees has become substantial and is expected to grow as additional licensees are added.

At the end of June, Standard International took its first step into another growing market with the acquisition of a producer and marketer of high quality men's clothing. Now operating as the Bronzetti-Sigel division of the Company, the acquisition represents an initial entry into the expanding "natural shoulder" seg-

ment of the menswear field, an area with excellent prospects for continued rapid growth in the future.

The results achieved thus far at Procon Pump since its recent acquisition bear out our preliminary evaluation and projections for that division. Procon dominates a highly specialized and profitable segment of the pump industry and has shown consistent growth in sales and earnings over the last two decades. The company has just concluded its finest year, and its domestic sales have kept pace with the growth of the market for the dispensing of carbonated beverages through vending machines and soda fountains. Sales of Procon pumps in the European Common Market have also grown rapidly in recent years due to the increasing popularity of Espresso coffee machines and soft drink dispensing units. Plans for establishing a European manufacturing facility are now underway.

Review of Operations

Surgical-Medical Division Accelerates Growth

Operating in a vital growth area of the economy, the Edward Weck division broke all sales and earnings records in its 76-year history. To keep pace with changing medical, surgical and hospital techniques, Weck introduced a number of important new products during the past year and substantially expanded its research and development facilities with the acquisition of the Promedco Company.

Weck has eliminated from its line many of the marginally profitable "dealer products" produced by others and sold by many competing firms. Such re-sale items have been replaced by Weck-manufactured, high-quality instruments and disposable hospital products sold exclusively by Weck's highly trained sales force. Sales of "Weck-made" products have therefore grown at an accelerated rate, resulting in increased profit margins.

Probably one of the most important Weck developments in several years has been the successful introduction of the patented Hemo-Clip, a unique new forceps and disposable suturing clip used to stop the flow of blood during surgery. With this instrument, the time necessary for surgical procedures has been significantly reduced. The instrument has already received world-wide acceptance and, in answer to demand, two additional Hemo-Clip sizes are now being developed. It is anticipated that the Hemo-Clip will become an important tool for an increasing number of surgical procedures. Through cooperative research projects with leading surgeons and hospitals, Weck will continue to develop new and improved surgical instruments, disposable items and other quality products for hospitals.

With Medicare, Medicaid and other governmental and private programs stimulating even greater future growth in the medical-surgical field, Weck has instituted an extensive sales training program to expand its national sales force and to obtain more thorough coverage of surgeons and hospitals. By means of this program, coupled with expanded new product activities, Weck continues to make large strides in a major industry.

Standard Publishing's 10th Record Year

For its 100th Anniversary, Standard Publishing achieved record sales for the tenth consecutive year. Reflecting the vigorous growth of the publishing and educational fields plus the ability of the management to prepare and successfully implement long-range plans, sales of this division have increased over 250% since it became a part of Standard International.

The major expansion of plant and equipment completed early last year has enabled the company to greatly expand its commercial and educational printing operations. The new facilities are now operating at full capacity and another major expansion, which will probably be required in fiscal 1968, is now in the planning stage.

Standard's efforts in church periodicals, teaching materials, and religious and educational courses continue to produce gratifying results. The division's successful program of acquiring religious retail bookstores has been most rewarding. Standard Publishing has recently purchased its 16th store — or more accurately, distribution point for its merchandise, religious literature, and other publications. The division is in an excellent position to continue the sustained and orderly growth it has enjoyed for many decades.

Other Divisional Highlights

Roehlen Engraving turned in another traditional performance by exceeding all forecasts and establishing new sales and earnings records. This was largely the result of the major capital expansion program completed last year. This has enabled the division to increase productivity and efficiency and thus provide better service and deliveries to customers. In addition, the accelerated apprenticeship program has been increasingly successful in providing a growing force of skilled engravers.

Work is proceeding on the expansion of plant and facilities at Pannes-Werthmann, Krefeld, Germany, Roehlen's recently acquired engraving operation in the Common Market. The company is operating profitably at current levels, but it will probably be at least a year before it can achieve incremental benefits from the plant expansion.

Standard Household Products continues to demonstrate vitality and strong earning power in the face of vigorous competition. During the past year, marketing operations were strengthened, new approaches in sales promotion and advertising were tested, Bon Ami packages were redesigned for greater impact at the point of sale, and new incentive plans were introduced to motivate brokers and retailers.

This Spring, the division launched its most forceful advertising campaign in several years: Lestoil television spots appeared in all major markets; radio network personalities Arthur Godfrey and Don McNeill promoted Bon Ami products nationally; and both Lestoil and Bon Ami were advertised heavily through local radio spots. Results of the campaign have been very satisfactory and the program will continue for the balance of the current year.

Tidy Home Division: We are pleased to announce that on August 22 an agreement was reached with Hudson Pulp & Paper Corp. for the sale of the machinery and inventory of this unit for cash. The disposition of this operation eliminates an unprofitable division. Tidy Home will retain its real estate and will continue to press its anti-trust lawsuit alleging unfair competition against a large competitor.

Pan American Bag Company of Puerto Rico enjoyed another record year. Anticipating the rapid expansion of the entire Caribbean market, the division has appointed sales agents on most of the major islands. In January, the National Bag Company, a 50%-owned subsidiary, began producing shopping bags in Puerto Rico and initial results have been excellent. This company was established as a joint venture with the Equitable Paper Bag Company of New York, a leading producer of shopping bags.

Vice President Herbert Breslow was named President of Pan American following the appointment of Barry Merkin as President of the newly-acquired Procon Pump division.

The Everedy Division's new Teflon-coating installation has been operating at practically full capacity through most of the past fiscal year. It has enabled the company to achieve a significant share of the increasingly active Teflon market. These facilities have also made possible the division's successful entry into the promising field of industrial Teflon custom-coating. During the past year, Everedy also developed a new type of three-ply steel bakeware, chrome-plated on the outside and Teflon-coated on the inside. The exclusive new line was successfully introduced at the recent housewares market.

Our Coca-Cola franchises in South America again set new records in case sales, rising from 33,200,000 cases a year ago to 35,000,000 in fiscal 1966. Total cash dividends increased slightly from the previous year. While volume in Chile and Argentina each reached record levels, inflation and de-valuation in Uruguay slowed progress in that country for most of the year. However, the trend has recently been reversed and sales in Uruguay are now showing satisfactory increases.

All three franchises have successfully introduced new soft drink flavors within the past year. New flavors and new refreshment snacks and products give promise of continued growth in all areas. As with the Coca-Cola Company in this country, we regard our franchises to be in the "refreshment" industry and accordingly, we will seek growth in this much broader market.

Rex Packaging has been largely re-equipped with modern production facilities and has been intensifying its marketing efforts in the printing and production of polyethylene products. With increased efficiencies and a better product-mix, Rex has gradually improved its profit margins.

A Look Ahead

The Company's achievements of the past year largely resulted from the major capital expenditures of the prior year, the strengthening of the Company's financial resources, the institution of stronger and better systems of internal control, and the profitable and balanced diversity we enjoy. These factors give the Company an elasticity and opportunity for growth that transcends short term trends in any one industry or area. It will be these same factors, we believe, that will bring further gains in sales and earnings in the year ahead.

However, we would also like to pay tribute to another vital element on which the achievements of the past and the opportunities of the future depend: our organization. We are fortunate in having an outstanding team of people, blending maturity and experience with a youthful spirit and a deep sense of loyalty. It is their responsibility to profitably put to work the assets entrusted to them by our stockholders. We nurture and strengthen this organization through a program of meaningful management incentives, whereby successful efforts on the part of the individual are rewarded in proportion to his contribution to the corporation's success.

We believe that the potential of the industries we serve is still very great and that we should therefore continue to experience the healthy internal growth that has characterized our major operating units in the past. We feel that, barring broad economic dislocation, the Company has achieved a stability independent of the temporary cycles of any one industry. By maintaining its position of flexibility, Standard International can move into any appropriate situation offering a sufficiently attractive potential. With our experienced management personnel and with the financial resources available to the Company, we believe that we can profitably exploit such potential.

The pace of our current business indicates that we can look forward to a continuance of our growth in fiscal '67. We look to the future with enthusiasm and we are confident that the greatest attainments of the Company lie ahead.

John Bolten — Chairman of the Board

Daniel F. Hogan Jr. — President

PEOPLE OF STANDARD INTERNATIONAL

At 11 A.M. on July 11, 1966, the common stock of Standard International was officially admitted to listing on the American Stock Exchange. Present at the start of trading as the new symbol " S T L" flashed across the ticker tape were Exchange floor official John C. Turner, President Daniel E. Hogan, Chairman John Bolten and an executive of a New York brokerage house.

Company policies, operations, plans and projections are intensively discussed at regular Presidents' Committee meetings of division heads and the corporate staff.

Standard International President Daniel E. Hogan and Charles J. McCarthy, President of Standard Household Products, meet with super-salesman Arthur Godfrey at his New York offices. On his national radio network show, Godfrey tells millions of women about the quality of Bon Ami products.

In the past ten years, Standard International has achieved a rapid and continuing growth through internal expansion, merger and acquisition. These accomplishments were made possible by the existence of a vigorous, dedicated organization.

Shown below are a few of these people of Standard International as they engage in their varied activities on behalf of the Company. You will find them in the quiet of their offices . . . in the public market place as the world looks on . . . in a committee meeting . . . in an exchange of ideas with an associate . . . or on a visit to a distant customer. These are the sources of ideas and inspiration so vital to a growing business in a changing world.

Carlo Ernesto Valente, a leading Italian industrialist and head of Faema of Milan, Italy, discusses Procon pumps and the rapidly-growing market for Espresso coffee machines during a recent visit by A. Barry Merkin, President of Procon Pump. Faema is the leading European manufacturer of Espresso machines.

One of Weck's most dramatic new surgical products is the Hemo-Clip forceps and disposable tantalum clips for suturing. A movie demonstrating the use of these clips to shorten surgical procedure time is shown by George Ahearn, Director, Surgical Instrument Division. The product is receiving international acceptance by leading surgeons and hospitals.

STANDARD INTERNATIONAL CORPORATION

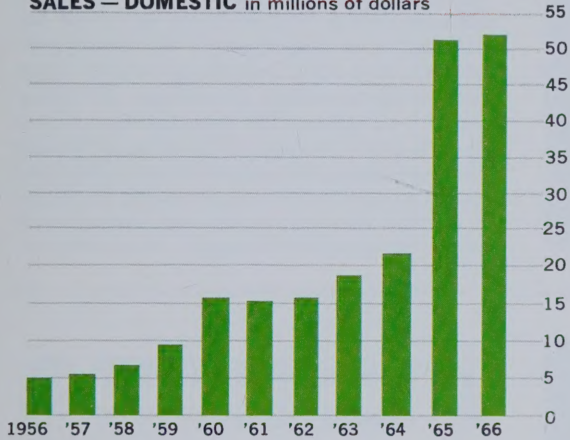
DECADE OF GROWTH:	TODAY	TEN YEARS AGO
OPERATIONS	**Fiscal 1966**	**Calendar 1956**
Sales and Other Income	**$52,764,033**	$5,081,797
Pre-Tax Earnings	**4,321,380**	419,131
Taxes on Income	**1,550,000**	222,437
Net Income After Income Taxes	**2,771,380**	196,694
Preferred Dividends	**35,880**	*
Net Income Applicable to Common Stock	**2,735,500**	*
Per Common Share	**1.58**	*
Earnings as a Percent of Common Stock Equity	**16.7%**	*
Depreciation and Amortization	**1,540,829**	591,311
Cash Flow	**4,347,803**	788,005
Dividends on Common Shares	**406,669**	–
Stock Dividend	**4%**	–
FINANCIAL AND OTHER DATA		
Property, Plant and Equipment — at Cost	**19,118,160**	4,671,450
Accumulated Depreciation	**7,622,680**	1,108,777
Property, Plant and Equipment — Net	**11,495,480**	3,562,673
Working Capital	**10,359,095**	1,693,769
Current Ratio	**2.24 to 1**	2.89 to 1
Long-Term Debt	**18,130,375**	3,223,080
Equity Attributable to Common Stock	**16,349,502**	435,017
Per Common Share	**9.42**	*
Buildings Owned or Leased — Square Feet	**1,184,785**	176,698
Number of Employees (Domestic)	**1,910**	407
Wages and Salaries Including Benefits	**14,119,274**	1,804,535
Number of Stockholders	**4,255**	8
Number of Common Shares Outstanding	**1,735,492**	*

*Not Comparable

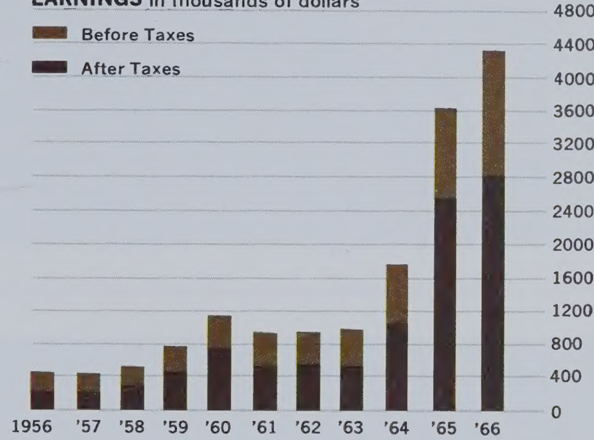
DECADE OF GROWTH 1956-1966

All figures (except Coca-Cola Case Sales) include operations of purchased, merged or discontinued companies only during those years when they were part of Standard International Corporation. (Figures through 1961 on calendar year basis; figures for 1962-1966 based on fiscal year ending June 30.)

SALES — DOMESTIC in millions of dollars

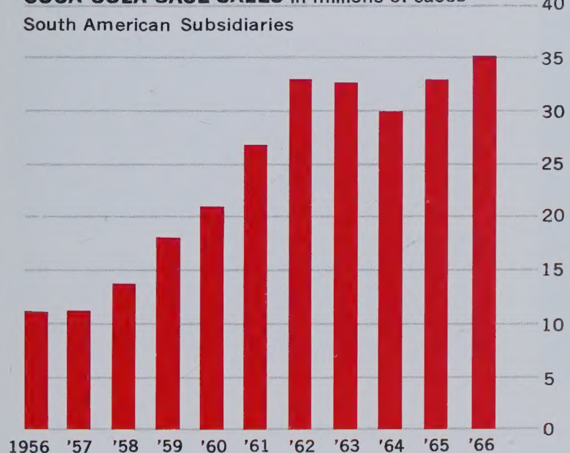


EARNINGS in thousands of dollars

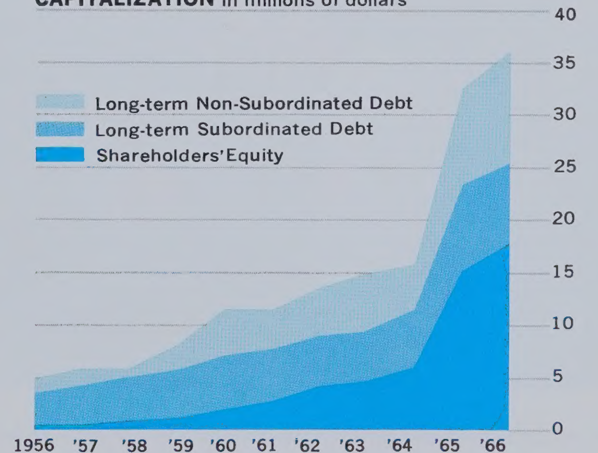


COCA-COLA CASE SALES in millions of cases

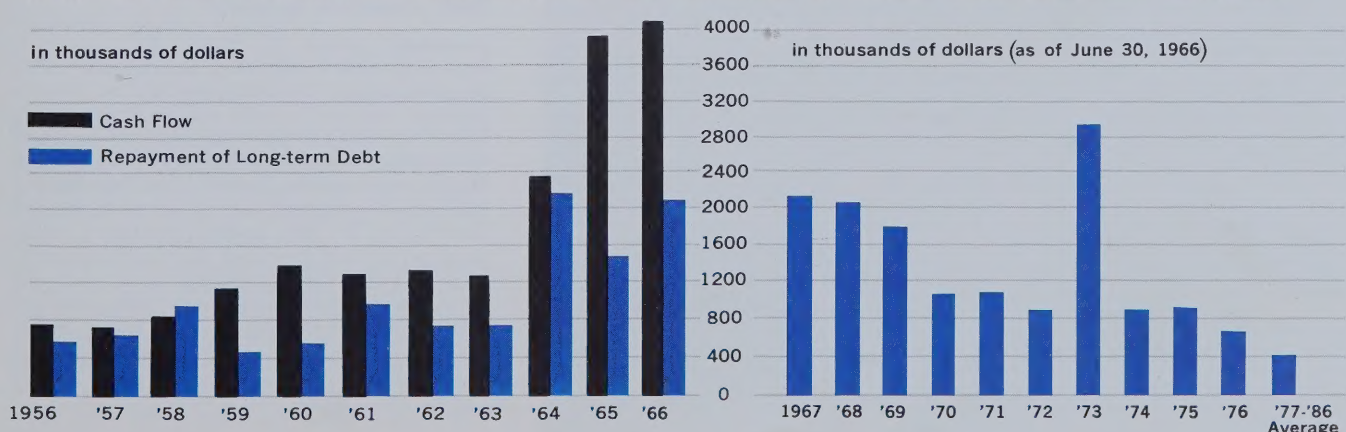
South American Subsidiaries



CAPITALIZATION in millions of dollars



CASH FLOW and REPAYMENT OF LONG-TERM DEBT and SCHEDULE OF FUTURE LONG-TERM DEBT REPAYMENT



STANDARD PUBLISHING

Cincinnati, Ohio

President: James N. Johnson

Vice Presidents: Vernon A. Anderson, Stanley R. Bachmeyer, William S. Bell, Burris Butler, John L. Eger, Noble W. Ferren, J. B. Jones

Since 1866 Standard has been one of the largest independent publishers, printers and distributors of religious literature and Sunday-School publications and teaching materials. Standard Publishing in recent years has also experienced rapid growth in its commercial printing operations, producing magazines, calendars and advertising literature for an imposing list of clients.

In 1965, Standard established a West Coast distribution center and entered into the operation of retail outlets. The company has acquired 16 such retail locations. The Johnson-Watson Printing division, located in Dayton, Ohio, and acquired last year, is one of the largest producers of precinct election supplies and operates as a unit of Standard Publishing.

ROEHLEN ENGRAVING

Rochester, New York

President: Henry J. Piechota

Vice Presidents: Robert R. Chapman, John P. Donovan, John H. Planken, Jr.

The oldest and largest manufacturer in its field, Roehlen's engraved steel rolls and plates are used to produce embossed designs and textured surface effects on such materials as plastics, leather, paper, metals, wallboard and rubber. Roehlen's extensive library of about 30,000 master rolls and 14,000 textured patterns is one of the most comprehensive collections of texture and design in existence.

In 1965, Roehlen expanded its operations into the growing European Common Market with the acquisition of the Pannes-Werthmann Engraving Company of Krefeld, Germany.

THE EVEREDY COMPANY

Frederick, Maryland

President: Arthur E. Read, Jr.

Executive Vice President: J. Emory Baer

Vice President: Leo H. Colliflower

Manufacturing a wide range of popular-priced houseware products sold throughout the United States and Canada, Everedy has long been a leader in the production of chrome-plated steel housewares. In 1964, Everedy became a prime producer of Teflon-coated cookware and bakeware and last year completed the installation of a highly automated new Teflon-coating plant. Among the products of the company are cooking utensils, bakeware, pantry-ware, giftware, broilers, barbecue tools, 'Tater Bakers and bottle cappers.

COCA-COLA FRANCHISES

South America

Presidents:
Thomas L. King, *Roehlen Limited;*
Maurice Kember, *Inti (Cordoba, Argentina);*
Joseph J. Cussen, *Andina (Chile);*
Haroldo G. Arocena, *Monresa (Uruguay)*

General Managers: Oscar Castell, *Inti;* Carlos Parker, *Andina;* Juan J. Oteiza, *Monresa*

These three soft drink bottling companies have been authorized Coca-Cola bottlers for the past 19 years and each is ranked among the 15 largest such franchises of the world. Standard International holds over a 50% interest in these franchises, which together serve an area of over 7,500,000 people and operate seven modern bottling plants and 11 warehouses.

In the past year, the franchises sold over 35,000,000 cases of Coca-Cola, Orange Fanta and tonic drinks. Sprite is now being marketed in Argentina and plans are underway for its introduction in Chile and Uruguay.

EDWARD WECK & COMPANY

Long Island City, New York

President: Robert D. Howse
Executive Vice President: Robert D. Lake
Vice Presidents: Eleanor J. Murphy, William D. Tucker

A leading manufacturer and distributor of precision surgical instruments, hospital supplies and medical equipment since 1890. Working with prominent surgeons and hospitals, Weck is playing an increasingly important role in the advancement of medical techniques and surgical procedures, and in the development of disposable hospital products.

Weck is also the leading producer of quality hair shapers and single-edge blades for the beauty salon field. At its Durham-Enders Razor division, the firm produces razors and blades for consumer use and industrial applications.

PAN AMERICAN BAG CO.

Bayamon, Puerto Rico

President: Herbert Breslow

Pan American is the sole manufacturer of grocery, notion and millinery paper bags on the island of Puerto Rico. From this strategic position, the company has become the dominant factor in its field throughout the rapidly-expanding island economy and has recently expanded its sales and marketing operations into the entire Caribbean area.

In 1965, Pan American entered a joint venture with the Equitable Paper Bag Company for the production of shopping bags in Puerto Rico. Production began in January, 1966 and initial response to the new line has been excellent. Previously, all shopping bags on the island had been imported from the United States.

STANDARD HOUSEHOLD PRODUCTS CORP.

Holyoke, Massachusetts

President: Charles J. McCarthy
Executive Vice President: Aldo P. Zarlengo
Vice Presidents: George W. Busby, Jr., Gerald R. Frazier, Edwin I. Stoltz

Standard Household Products manufactures and markets a broad line of well-known household cleaning and laundry products, as well as products for industrial and institutional use. Originally dependent upon the sales of one product — Lestoil — the company's product line has gradually been materially expanded and strengthened through internal development and acquisition.

Today, the line includes about 50 of America's finest brand names including: Lestoil detergents, Bon Ami cleansers, Lestoil's Spray Starch, Bon Ami Dust 'n Wax furniture polish, Bon Ami Jet Spray window cleaner, Red Cap Refresh-R, Scuffy shoe polish and Lestare Bleach.

REX PACKAGING

Carteret, New Jersey

President: Irving A. Singer
Vice Presidents: Leonard C. Gold, Bernard Greisman, Fred Abrams

Rex Packaging is an important specialty bag manufacturer and packaging converter of plain and printed paper, foil-laminates, cellophane and polyethylene bags, sheets and rolls. Its products are sold on a custom or proprietary basis to a wide variety of industries and Rex has achieved a special position of leadership in the production of bags for the concession and vending industries. Early in 1965, the firm moved its operations to a new and larger plant and modernized its printing and bag-making equipment.

PROCON PUMP COMPANY

Detroit, Michigan

President: A. Barry Merkin
Vice President: Julius Dremann

The leading manufacturer of pumps for the carbonation of soft drinks dispensed through vending machines and soda fountains, Procon's precision products are the standard of quality for these applications throughout the world. Procon's line is also utilized in a number of other industries — including Espresso coffee machines and water boosters for fire protection systems — and in applications requiring the pumping of water, carbonated water, aqueous ammonia, corrosive fluids and other liquids under certain precise conditions.

STANDARD INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF CONSOLIDATED INCOME

	Fiscal Years Ended June 30	
	1966	**1965**
Income:		
Net sales	**$52,089,631**	$51,815,967
Dividends, interest and other income	**674,402**	657,931
Total income	**52,764,033**	52,473,898
Costs and Expenses:		
Cost of products sold	**31,405,895**	30,398,240
Selling, general and administrative expenses	**15,986,686**	17,387,689
Interest expense	**1,050,072**	1,091,443
Total costs and expenses	**48,442,653**	48,877,372
Income Before Taxes on Income	**4,321,380**	3,596,526
Provision for Federal and Other Taxes on Income	**1,550,000**	1,078,043
Net Income	**$ 2,771,380**	$ 2,518,483

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	Fiscal Years Ended June 30	
	1966	**1965**
Balance at Beginning of Year	**$ 7,261,892**	$5,257,711
Add (Deduct) — Adjustments resulting from accounting for 1966 pooling of interests	**(7,293)**	6,234
Balance at Beginning of Year - as Adjusted	**7,254,599**	5,263,945
Net Income	**2,771,380**	2,518,483
	10,025,979	7,782,428
Deductions:		
Dividends paid:		
4% cumulative preferred stock — $4 per share	**35,880**	35,880
Class A stock — $.41¼ per share	**—**	21,813
Common stock — $.24 per share in 1966; $.16 per share in 1965	**406,669**	260,136
Stock dividend — 4% (65,195 shares at approximate market value of $10.25, plus cash payments of $13,124 in lieu of fractional shares)	**681,373**	—
Excess of cost over stated value of treasury stock exchanged for net assets of Casa Dei Bronzetti, Inc. (exclusive of portion charged to capital surplus)	**45,730**	—
Provision for additional prior years' (1957 to 1959) Federal income taxes	**200,000**	150,000
Provision for prior years' pension costs	**—**	60,000
Total deductions	**1,369,652**	527,829
Balance at End of Year	**$ 8,656,327**	$7,254,599

See notes to financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS	June 30, 1966 and 1965	
Current Assets:	**1966**	**1965**
Cash	**$ 2,753,198**	$ 2,168,892
Receivables — less allowances of $150,273 in 1966, $211,907 in 1965	**6,887,486**	6,222,170
Inventories	**8,803,409**	7,906,063
Prepaid insurance, taxes, etc.	**273,169**	219,261
Total current assets	**18,717,262**	16,516,386
Investments - at cost:		
Unconsolidated South American subsidiaries	**3,857,511**	3,852,555
Other	**394,419**	204,921
Total investments	**4,251,930**	4,057,476
Property, Plant and Equipment - at cost	**19,118,160**	18,018,621
Less accumulated depreciation and amortization	**7,622,680**	6,260,254
Property, plant and equipment — net	**11,495,480**	11,758,367
Other Assets:		
Mortgage notes and other receivables	**296,452**	164,956
Cash surrender value of insurance on lives of officers and employees	**198,698**	134,810
Patents, leaseholds, etc. (less amortization)	**922,987**	499,799
Total other assets	**1,418,137**	799,565
Goodwill, Formulae, Trademarks, etc.	**6,493,585**	5,742,121
Deferred Charges	**189,867**	206,898
Total	**$42,566,261**	$39,080,813

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 1966 and 1965	
Current Liabilities:	1966	1965
Notes payable and current portion of long-term debt	**$ 1,380,062**	$ 2,684,408
Accounts payable and withholdings	**2,323,085**	2,896,415
Federal, state and Canadian income taxes	**2,177,758**	1,112,777
Sundry accrued liabilities	**2,477,262**	1,639,291
Total current liabilities	**8,358,167**	8,332,891
Long-Term Debt (less current portion included above)	**16,790,313**	15,951,570
Unearned Subscriptions	**171,279**	177,873
Stockholders' Equity:		
Capital stock:		
Preferred — 4% cumulative; authorized, 20,000 shares of $100 par value each; issued, 17,562 shares; reacquired and cancelled, 8,592 shares; outstanding, 8,970 shares	**897,000**	897,000
Common — authorized, 2,500,000 shares of no par value; stated value per share $3; issued, 1,735,492 shares in 1966, 1,669,963 shares in 1965	**5,206,476**	5,009,889
Capital surplus	**2,486,699**	1,582,516
Retained earnings	**8,656,327**	7,254,599
Total	**17,246,502**	14,744,004
Less cost of 28,477 shares of common stock held in treasury	**—**	125,525
Total stockholders' equity	**17,246,502**	14,618,479
Total	**$42,566,261**	$39,080,813

See notes to financial statements.

STANDARD INTERNATIONAL CORPORATION
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

	Fiscal Years Ended June 30	
	1966	**1965**
SOURCE OF FUNDS:		
From operations:		
Net income	**$2,771,380**	$ 2,518,483
Depreciation and amortization of property, plant and equipment	**1,421,406**	1,294,314
Amortization of patents, leaseholds, etc.	**119,423**	80,237
Other — net	**35,594**	32,459
Total	**4,347,803**	3,925,493
Increase in long-term debt	**4,400,000**	4,408,810
Net proceeds from sale of 182,500 shares of common stock		2,309,195
Proceeds from sale of common and treasury stock under employee stock option plans	**42,006**	14,658
Proceeds from sale of treasury stock	**13,124**	—
Proceeds from dispositions of property, plant and equipment	**40,516**	317,618
Total	**8,843,449**	10,975,774
APPLICATION OF FUNDS:		
Purchases of property, plant and equipment	**1,196,271**	3,809,496
Payment of long-term debt	**3,011,257**	1,788,073
Cash dividends paid (including in 1966 $13,124 in lieu of fractional shares)	**455,673**	319,404
Redemption of preferred stock		933,170
Cost of treasury stock acquired	**72,367**	130,826
Increase in liabilities for prior years' Federal income taxes and pension costs	**200,000**	210,000
Excess of cost over underlying assets of companies acquired	**776,996**	576,465
Increase in patents, leaseholds, etc.	**542,138**	—
Increase (decrease) in investments and other assets	**386,106**	(466,863)
Other increases (decreases) — net	**27,041**	(161,784)
Total	**6,667,849**	7,138,787
INCREASE IN WORKING CAPITAL	**$2,175,600**	$ 3,836,987

See notes to financial statements

ACCOUNTANTS' OPINION

To the Directors and Shareholders of
Standard International Corporation:

We have examined the consolidated balance sheet of Standard International Corporation and its consolidated subsidiaries as of June 30, 1966, and the related statements of consolidated income and retained earnings and of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Standard International Corporation and its consolidated subsidiaries at June 30, 1966 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Boston, Massachusetts
August 22, 1966

Haskins & Sells

NOTES TO FINANCIAL STATEMENTS, JUNE 30, 1966

Basis of Consolidation

The consolidated financial statements for the year ended June 30, 1966 include the accounts of Standard International Corporation (the Company) and all of its wholly-owned subsidiaries. The three South American subsidiaries in which the Company holds an interest of slightly more than 50%, are not consolidated. The currencies of the respective countries in which these subsidiaries operate are subject to substantial exchange fluctuations. Also not consolidated are the accounts of two small 50% owned companies in Puerto Rico and Switzerland, the equity in the net assets of which approximated the investment cost at year end.

On June 30, 1966 the Company acquired the net assets and business of Casa Dei Bronzetti, Inc. in exchange for 10,000 shares of the Company's treasury stock. This acquisition was accounted for as a pooling of interests and accordingly the consolidated financial statements for the current year include the operations of Casa Dei Bronzetti, Inc. for the entire year and the financial statements for the preceding year have been restated on a comparable basis. The excess of the cost of the Company's treasury stock exchanged over the stated value thereof was charged to capital surplus ($14,527) and retained earnings ($45,730).

Also during the current year the Company purchased the net assets and business of Procon Pump and Engineering Co. and two smaller companies. These acquisitions were accounted for as purchases and accordingly the consolidated financial statements include their operations from their respective dates of acquisition. The excess of purchase price over underlying assets of these companies at date of acquisition, $776,996, has been allocated to goodwill, formulae, trademarks, etc.

Inventories

Except for the inventories of one division which are carried at last-in, first-out cost (lifo), all other inventories are carried at the lower of cost (first-in, first-out or average) or market. The replacement value of the lifo inventory at June 30, 1966 is approximately $910,000. Inventory at June 30, 1966 is comprised of the following:

	Lower of Cost or Market	Last-in, First-Out	Total
Finished goods	$4,228,535	$204,946	$4,433,481
Work in process	1,373,508	155,042	1,528,550
Raw materials and supplies	2,589,562	251,816	2,841,378
Total	$8,191,605	$611,804	$8,803,409

Investment in Unconsolidated South American Subsidiaries

The Company's investment, $3,857,511, in the outstanding common stock of three Coca-Cola bottling companies located in Argentina, Chile, and Uruguay is carried in the accompanying balance sheet at cost, and only actual cash dividends received are included in income.

The Company's equity in the combined net assets of these companies (slightly more than 50% in each) as of June 30, 1966 exceeded the Company's investment by approximately $1,700,000. This amount includes unrealized translation gains of approximately $1,100,000 which had not been recognized in prior years.

The foregoing information relating to the combined net assets of the South American companies is based on audited financial statements in local currencies as of June 30, 1966 which have been translated at exchange rates in effect at the end of the year, except for property and depreciation reserves which have been translated at exchange rates at dates of investment or acquisition, and United States dollar assets and liabilities which have been translated at the applicable dollar amounts.

Property, Plant and Equipment

Details of property, plant and equipment at June 30, 1966 and 1965 are as follows:

	1966	1965
Land and land improvements	$ 897,178	$ 816,780
Buildings	6,041,999	5,655,601
Machinery and equipment	10,926,166	10,414,539
Office furniture and equipment	833,543	750,734
Transportation equipment	244,760	222,074
Leasehold improvements	174,514	158,893
Total	$19,118,160	$18,018,621

Provisions for depreciation and amortization of property, plant and equipment during the years ended June 30, 1966 and 1965 aggregated $1,421,406 and $1,294,314, respectively.

Goodwill, Formulae, Trademarks, etc.

The values allocated to goodwill, formulae, trademarks, etc. represent the excess of cost over underlying assets of companies acquired. No provision for amortization of goodwill, formulae, trademarks, etc. has been made in the accompanying financial statements since, in the opinion of management, there has been no diminution in value of these assets.

Long-Term Debt

A summary of long-term debt as of June 30, 1966 follows:

Non-subordinated:	
Notes payable to insurance companies — 5¾% and 6¼%	$ 5,753,000
Notes payable to banks — generally 5% to 6%	3,270,679
Notes payable to various institutions — 6¼%	1,100,000
Other — to 6%	396,894
Subordinated:	
Convertible notes payable to an insurance company — 6%	1,000,000
Subordinated debentures — 6½%	2,031,960
Notes payable to former owners (of acquired net assets) and principal stockholders — generally 4% to 6%	4,577,842
Total	$18,130,375

The aggregate amounts of long-term debt maturities due each year to June 30, 1971 and subsequent thereto are as follows:

1967	$ 1,340,062
1968	1,931,846
1969	1,976,944
1970	1,092,945
1971	1,096,181
After 1971	10,692,397
Total	$18,130,375

All of the shares of capital stock of the three South American subsidiaries owned by the Company are pledged as collateral to the notes payable to insurance companies, including a small number of shares (cost $77,675) which are subject to a prior pledge as collateral for $100,000 of notes payable to a former owner. As additional collateral, the insurance companies hold a mortgage on real estate and certain machinery and equipment of the Standard Publishing Division in Mt. Healthy, Ohio, which assets have an approximate net book value of $1,826,177 at June 30, 1966.

A 5½% note payable to a bank is collateralized by a first mortgage on real estate in Rochester, New York, with a net book value of $727,091. Printing presses of the Standard Publishing Division (net book value of $703,280 at June 30, 1966) are mortgaged as collateral to 5% and 5¼% notes payable to a bank. All of the shares of capital stock of Pan American Paper Bag Company, Inc., a wholly-owned subsidiary, are pledged as collateral to a 5½% note payable to a bank. In addition, all land and buildings owned by Pan American with a net book value of $540,747 are pledged as collateral to a 6% mortgage note payable. Certain machinery and equipment of a division with a net book value of $54,124 is pledged as collateral to 4% and 6% notes payable to a bank.

The 6% subordinated notes payable to an insurance company may be converted into shares of the Company's common stock at any time prior to December 15, 1974 at various prices ranging from $14.375 at any time prior to December 15, 1968 and increasing to $18.00 after December 14, 1973. At June 30, 1966, 69,333 shares of common stock are reserved for such conversion.

The loan agreements relating to the notes of the Company and one of its subsidiaries payable to insurance companies and the 6½% subordinated debentures contain provisions relating to the maintenance of consolidated working capital and restrictions on the payment of dividends, the purchase of shares of the Company's capital stock, and on investments. The amount of consolidated retained earnings free of restrictions at June 30, 1966 was approximately $380,000.

Federal Income Taxes

The Company and its domestic subsidiaries file consolidated Federal income tax returns. The provision of $1,365,000 for Federal income tax for the

to property purchased or leased during the current year. The remaining $442,339 of net operating loss of prior years of merged companies has been used to reduce the tax provision for the current year. Consolidated net income includes $641,468 of income of the Bahamian and Puerto Rican subsidiaries not subject to Federal income tax.

During the current year the Internal Revenue Service completed its examination of the Federal Income tax returns of (1) the Company, its subsidiaries, and a former subsidiary for the years 1957 through 1963 and the Federal income tax returns of a predecessor organization (from which the Company purchased the net assets of the Standard Publishing Division) for the calendar years 1955, 1956, and 1957, and (2) of certain merged companies, Lestoil Products, Inc. and its subsidiaries for the years 1963 and 1964 and of The Bon Ami Company and its subsidiaries for the years 1962, 1963, and 1964. As a result of these examinations substantial adjustments have been proposed by the Internal Revenue Service. The Company is contesting the greater portion of the adjustments and has made provision in the accompanying financial statements for the additional taxes and interest, which in the opinion of the Company and its counsel, may ultimately be due.

Common Stock and Capital Surplus

The changes in common stock and capital surplus accounts during the year ended June 30, 1966 were as follows:

	Common Stock	Capital Surplus
Balance at beginning of year	$5,009,889	$1,602,516
Adjustment resulting from the issue of 10,000 shares of treasury stock in connection with 1966 pooling of interests		(20,000)
Balance at beginning of year — as adjusted	5,009,889	1,582,516
Capitalization of retained earnings and issue of 65,195 shares of unissued stock resulting from 4% stock dividend	195,585	472,663
Excess of liability over cost of 26,000 shares of treasury stock upon conversion of $550,000 of 4% notes payable to a former owner (of acquired net assets)		444,910
Excess of proceeds received over cost of 6,667 shares of treasury stock upon exercise of employee stock options		13,053
Proceeds received upon exercise of employee stock options for 334 shares of unissued common stock	1,002	1,002
Excess of proceeds received from sale of 1,385 shares of treasury stock over cost thereof		7,529
Excess of cost over stated value of treasury stock exchanged for net assets of Casa Dei Bronzetti, Inc. (exclusive of portion charged to retained earnings)		(14,527)
Issue and transfer stamp taxes in connection with stock issued in 1964 mergers		(18,000)
Miscellaneous charges arising from mergers		(2,447)
Balance at end of year	$5,206,476	$2,486,699

Long-Term Leases

Premises at various locations are leased under long-term agreements that had initial lease periods generally from five to twenty years. Certain of these leases contain purchase and renewal options. The annual rental under these leases is approximately $300,000. The Company, under a master lease agreement with a leasing company, has leased equipment during the current year at various locations under the agreement with annual rentals of approximately $80,000 over an initial ten year term.

Commitments and Contingent Liabilities

Certain officers and key employees have employment contracts, ranging from five years to life of the individual, which provide for annual compensation of $365,300. In the opinion of management and counsel the employment contracts provide for no current vested interest of the parties and the amounts of future payments, determined on an actuarial basis, are not believed to be material; therefore, no provision has been made in the financial statements for future obligations under the contracts.

Under an agreement dated March 25, 1960 with the owners of certain predecessor companies, the Company is obligated to pay such parties an amount equal to one-half of the annual net profits after taxes (as defined in the agreement) of such companies (now constituting a portion of a subsidiary) in excess of $1,500,000 until either a total of $4,000,000 shall have been paid or the period ending October 31,1969 shall have elapsed, whichever event occurs first. When and if these payments are made, they will be assigned to the intangible assets. No such additional payments have been required through June 30, 1966.

Employee Benefit Plans

Effective July 1, 1966 the Company adopted a new non-contributory funded pension plan for certain non-production employees which supercedes various prior plans. The total pension charge for the current year under the prior plans amounted to $285,608, including a portion of past service cost plus interest. Estimates from the actuary of the new plan indicate that the cost of the new plan including amortization of unfunded past service cost will be approximately the same as under the prior plans. The unfunded past service pension cost under the new plan is approximately $1,160,000 as of July 1, 1966. The Company intends to fund this amount over thirty years.

Also effective July 1, 1966, the Company adopted a new contributory profit sharing plan for certain divisions which will replace existing profit sharing plans. The charge for the current year under the prior plans amounted to $93,227.

During the year the Company adopted a bonus plan for executives which provides for determination each year of a maximum bonus pool which may be awarded by the Bonus Committee. Under this plan an amount of approximately $200,000 was provided during the current year.

Stock Options and Warrants

A summary of options outstanding follows:

	Options granted to		
	Employees	Lenders	Underwriter
Options outstanding, July 1, 1965	120,638	42,147	12,500
Options exercised at $6.00	(7,001)		
Options canceled or expired	(2,903)	(139)	
Increase in options outstanding resulting from 4% stock dividend	4,427	1,679	500
Options granted at $10.125 (equivalent to fair market value at date of grant)	37,100		
Options outstanding, June 30, 1966:			
Number of shares	152,261	43,687	13,000
Option price per share	$5.77 to $16.58	$10.10 to $26.92	$15.43 to $18.46
Expiration dates	1967 to 1972	1967 and 1972	1969

The details of common stock reserved for issuance under stock options and warrants at June 30, 1966 are as follows:

Reserved for employee stock options granted	152,261
Reserved for employee stock options to be granted	11,442
Reserved for warrants held by lenders	43,687
Reserved for option held by underwriter	13,000
Reserved for conversion of 6% subordinated note	69,333
Total shares reserved	289,723

Subsequent Acquisitions, etc.

On July 1, 1966 the Company purchased all of the outstanding capital stock of M. Sigel & Sons, Inc.

On August 22, 1966 the Company entered into an agreement to sell the inventories, machinery and equipment, and certain other assets of its Tidy Home Division for approximately net book value.

In August 1966, the Company and Welded Tube Co. of America reached an agreement in principle to merge the two companies. This proposed merger is subject to approval of the Boards of Directors of both companies, their stockholders, and long-term lending institutions.

STANDARD INTERNATIONAL CORPORATION
Andover, Massachusetts 01810

Printed in U.S.A. by Standard Publishing, Cincinnati, Ohio